

Message Text

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ACTION EA-12

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INFO USMISSION GENEVA
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E.O. 11652: NA
TAGS: ETRD, EIND, JA, MTN
SUBJECT: BILL FOR "DEPRESSED INDUSTRIES" BECOMES LAW

REF: TOKYO 2031

1. SUMMARY: AFTER PROTRACTED GOJ-INDUSTRY NEGOTIATIONS, MITI'S BILL ON RELIEF FOR STRUCTURALLY DEPRESSED INDUSTRIES WAS FINALLY PASSED BY THE DIET ON MAY 10 AND ADOPTED BY THE GOJ ON MAY 15. WHILE MITI'S AUTHORITY TO DIRECT THE RESTRUCTURING OF DEPRESSED INDUSTRIES WILL BE LESS THAN HAD BEEN EMBODIED IN ITS ORIGINAL DRAFT, MITI WILL STILL BE ABLE TO EXERT CONSIDERABLE INFLUENCE THROUGH FORMULATING "BASIC STABILIZATION PLANS" FOR EACH AFFECTED
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INDUSTRY AND ENCOURAGING THE ESTABLISHMENT OF CARTELS TO CARRY OUT NECESSARY REDUCTION OF SURPLUS FACILITIES. FINANCIAL BACKING FOR SUCH PROGRAMS WILL BE AVAILABLE THROUGH A GOJ-INDUSTRY FUNDED "DEPRESSED INDUSTRY CREDIT FUND". ALTHOUGH CRITICISMS OF THE DEPRESSED INDUSTRIES LAW HAVE PAID CONSIDERABLE ATTENTION TO PROBLEMS OF EXCESSIVE GOJ CONTROLS, THERE HAS BEEN LITTLE MENTION OF

ANOTHER POTENTIALLY SERIOUS PROBLEM--THAT OF TRADE IMPLICATIONS. WE ARE ALREADY HEARING ARGUMENTS THAT BASIC RESTRUCTURING PROGRAMS WILL REQUIRE RESTRICTIONS ON COMPETITIVE IMPORTS IF THEY ARE TO HAVE ANY REAL EFFECT.
END SUMMARY.

2. FOLLOWING PROLONGED NEGOTIATIONS AMONG INTERESTED GOJ AGENCIES, INDUSTRIES, AND DIET REPRESENTATIVES, A MITI-DRAFTED "BILL ON MEASURES FOR STRUCTURALLY DEPRESSED INDUSTRIES" (DESCRIBED REFTEL) PASSED THE DIET ON MAY 10 AND WAS OFFICIALLY ADOPTED BY THE GOJ ON MAY 15. THE LAW PRESENTLY SPECIFIES FOUR "DEPRESSED" INDUSTRY SECTORS--SMALLER STEEL MAKERS, ALUMINUM SMELTING, SYNTHETIC FIBERS, AND SHIP-BUILDING--AND STIPULATES THAT OTHER CHRONICALLY DEPRESSED INDUSTRIES MAY BE DESIGNATED BY A CABINET ORDER EXPECTED LATER IN JUNE.

3. ACCORDING TO THE LAW, A GIVEN INDUSTRY CAN BE DESIGNATED AS "STRUCTURALLY DEPRESSED" ONLY WHEN A MAJORITY OF INDUSTRY MEMBERS COMPRISING MORE THAN HALF THE VOLUME OF BUSINESS SEEKS SUCH DESIGNATION. WHILE THE LAW ITSELF IS NOT SPECIFIC ON THIS POINT, IT IS UNDERSTOOD THAT "MAJORITY" WILL USUALLY MEAN AT LEAST TWO-THIRDS. OTHER INDUSTRIES WHICH APPEAR TO BE CANDIDATES FOR STRUCTURALLY DEPRESSED STATUS NOW INCLUDE CAUSTIC SODA, VINYL CHLORIDE, CHEMICAL FERTILIZERS, COTTON AND WOOLEN SPINNING, CARDBOARD, PLYWOOD, FERRO-ALLOYS AND SUGAR REFINING.
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4. AS INDICATED REFTEL, CRITICISM FROM OTHER GOJ AGENCIES, PARTICULARLY JAPAN'S FAIR TRADE COMMISSION (FTC) AS WELL AS INDUSTRY SOURCES HAS SOMEWHAT SOFTENED THE DEPRESSED INDUSTRIES BILL FROM THE TIME IT WAS ORIGINALLY DRAFTED. AS FINALLY ADOPTED, THE LAW ALLOWS MITI TO DRAFT "BASIC STABILIZATION PLANS" FOR EACH OF THE INDUSTRIES UNDER DESIGNATION. THESE PLANS WILL DEAL PRIMARILY WITH CLOSING SURPLUS PRODUCTION CAPACITY AND RESTRICTIONS ON CONSTRUCTION OF NEW PLANTS. WHILE MITI CAN ADVISE THE FIRMS IN THESE INDUSTRIES TO FORM "DIRECTED CARTELS" FOR CARRYING OUT ITS STABILIZATION PLANS, IT MUST OBTAIN FTC APPROVAL FOR ALL SUCH CARTELS--A REQUIREMENT NOT INCLUDED IN MITI'S ORIGINAL DRAFT. IN ANOTHER SIGNIFICANT DEPARTURE FROM THE LAW'S INITIAL PROVISIONS, MITI WILL NOT BE AUTHORIZED TO COMPEL THE COOPERATION OF THOSE FIRMS THAT DO NOT CHOOSE TO ENTER THE CARTELS; THIS WAS A KEY ELEMENT IN EARLIER CRITICISM THAT MITI WOULD ACQUIRE DICTATORIAL POWERS OVER THE DEPRESSED INDUSTRIES.

5. WITH THEIR EMPHASIS ON BASIC RESTRUCTURING OF DESIGNATED INDUSTRIES, MITI'S DIRECTED CARTELS ARE INTENDED TO

PROVIDE A LONGER-TERM SOLUTION TO THE PROBLEMS OF JAPAN'S
CHRONICALLY DEPRESSED INDUSTRIAL SECTORS. UNLIKE PRESENT
"DEPRESSION CARTELS" (FORMED UNDER THE ANTI-MONOPOLY AND
SMALL-MEDIUM ENTERPRISE ORGANIZATION LAWS) THAT RELY ONLY
ON TEMPORARY CUT-BACKS IN PRODUCTION, DIRECTED
CARTELS WILL BE ABLE TO DRAW ON A "DEPRESSED INDUSTRY
CREDIT FUND" TO SUPPORT COSTS OF SCRAPPING, PRODUCTION
CONTRACT CANCELLATIONS, AND EMPLOYMENT ADJUSTMENT.
EIGHTY PERCENT OF THE FUND'S INITIAL 10 BILLION YEN
CAPITAL WILL COME FROM THE JAPAN DEVELOPMENT BANK,
WHILE THE PRIVATE SECTOR WILL CONTRIBUTE THE REMAINDER.

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6. DURING DIET DEBATES, THE DEPRESSED INDUSTRY LAW
WAS FURTHER AMENDED TO INCLUDE MEASURES FOR EMPLOYMENT
COMPENSATION, MANAGEMENT OF SMALL TO MEDIUM SIZED
FIRMS IN THE DESIGNATED INDUSTRIES, AND IMPACT
ASSISTANCE TO THOSE REGIONS OF JAPAN WHOSE ECONOMY
IS HEAVILY DEPENDENT ON THE DEPRESSED INDUSTRIES.
FOR EXAMPLE, MITI IS THINKING OF INCLUDING SPECIFIC
MEASURES FOR ASSISTANCE TO SUCH "DEPRESSED REGIONS"
IN THIS YEAR'S SUPPLEMENTARY BUDGET.

7. COMMENT: THOUGH DELAYED AND SOMEWHAT WEAKENED IN ITS PROVISIONS, THE DEPRESSED INDUSTRIES LAW HAS GENERALLY BEEN RECEIVED WITH FAVORABLE COMMENT. AS NOTED EARLIER, NO RESPONSIBLE ELEMENT IN THE JAPANESE ESTABLISHMENT DISPUTED THE NEED FOR ACTION ON DEPRESSED INDUSTRIES, BUT ONLY QUESTIONED THE LIMITED OFFICIAL USE

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DEGREE OF GOVERNMENT AUTHORITY NECESSARY TO CARRY IT OUT.

8. THERE WILL OF COURSE CONTINUE TO BE VARIOUS PROBLEMS OF ADJUSTMENT AS THIS LAW IS PUT INTO EFFECT (SUCH AS COMPROMISES OVER FTC RULINGS ON MITI CARTELS AND THE ACTUAL CONTENT OF RELIEF PROGRAMS FOR REGIONS DEPENDENT ON DEPRESSED INDUSTRIES). HOWEVER, THERE IS STILL ANOTHER ISSUE IMPLICIT IN THE IMPLEMENTATION OF THE DEPRESSED INDUSTRIES LAW--ITS TRADE IMPLICATIONS. THE CHAIRMAN OF THE JAPAN SPINNERS ASSOCIATION WAS RECENTLY QUOTED AS SAYING THAT UNLESS THE GOJ ENACTS RESTRICTIONS ON COMPETITIVE IMPORTS, THE DESIGNATION OF THE SPINNING INDUSTRY AS STRUCTURALLY DEPRESSED WILL BE MEANINGLESS. IT WOULD NOT BE DIFFICULT TO EXTEND SUCH AN ARGUMENT TO CHEMICALS, ALUMINUM, PLYWOOD, ETC., AND IN FACT THIS IS ALREADY HAPPENING. HAVING FINALLY ACHIEVED CONSENSUS ON REMEDIAL MEASURES TO SALVAGE ITS MOST SERIOUSLY DEPRESSED INDUSTRIES, THE GOJ MAY FIND ITSELF BURDENED WITH AN INCREASING VARIETY OF CONFLICTS BETWEEN DOMESTIC PRESSURE GROUPS AND INTERNATIONAL TRADE OBLIGATIONS.

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